

Managing Business Risks

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What Is Risk

“Chance” of something “bad”
happening



Exposure to possible outcomes that cannot be
accurately predicted or completely controlled

Production and prices are uncertain, so
income and welfare are never guaranteed

Risk, Profit & Goals

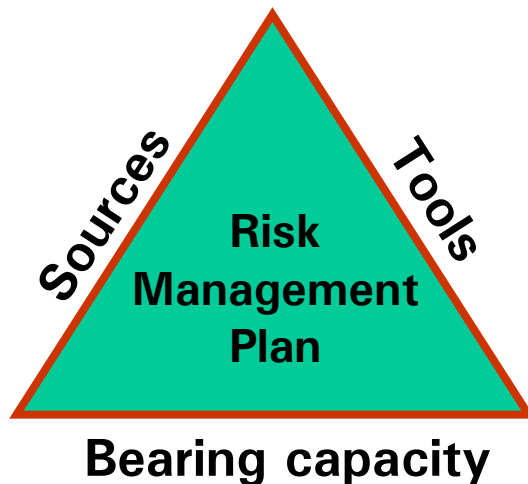
Profit = Returns to Risk

Risk Earns Profit

- Managers make choices from among “risky” alternatives
 - The reward for taking on business risk is attaining profits and reaching other goals
 - Bearing greater risks, improves opportunities for higher profit and loftier goals
 - Risk reducing strategies will likely increase costs and moderate other goals
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Managing Risk

- ✓ Understanding risk
- ✓ Identify your sources of risk
- ✓ Analyze your risk bearing ability & tolerance
- ✓ Become familiar with risk management tools
- ✓ Develop & implement a risk management plan



✓ Understand & Identify Sources of Risk

Series of questions related sources of risk

Production

Marketing

Financial

Human Resource

Legal & Environmental



Sources of Risk

Production

Variations in output due to weather, pests, disease, timing, etc.

Marketing

Unpredictable prices and markets

Financial

Loss of equity and borrowing capacity

Sources of Risk

Human Resource

Issues centered around employees or family members

Legal & Environmental

Laws or programs reflecting society's priorities and industry's mandates

Impact of natural resource base

✓ Risk Bearing Ability & Tolerance

Start with ..

Production & Market Review

Financial Statements & Budgets



Examine capacity, efficiency, solvency, liquidity, profitability, repayment ability

Consider how much risk you are currently exposed to in your operation?

How much risk am I willing to retain?

What risks need to be shifted to others?

✓ Risk Management Tools

Identify actions which may be taken

Action

Lessen the odds

Transfer, shift

Mitigate, lessen impact

Examples

- maintain equipment
 - multiple suppliers
 - carry insurance
 - contract services
 - extra capacity
 - spread sales
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Production Risk Management

- 📌 Follow recommended practices
 - 📌 Maintain equipment & facility repairs
 - 📌 Extra production capacity
 - 📌 Employ new technology
 - 📌 Enterprise diversification
 - 📌 Consider contract production or custom hire
 - 📌 Crop/revenue insurance
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Marketing Risk Management

- 📌 Market through alternative channels
 - 📌 Spread sales over season
 - 📌 Review harvest & storage decisions
 - 📌 Enter in sales and/or price contract(s)
 - 📌 Increase direct sales
 - 📌 Consider value added products/services
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Financial Risk Management

- 📌 Improve financial record keeping
- 📌 Develop business plan, communicate with lender
- 📌 Set financial & enterprise goals
- 📌 Reconsider business size, expansion or contraction
- 📌 Review/reschedule loan terms
- 📌 Consider leasing
- 📌 Consider outside employment



Human Resource Risk Management

- 📌 Adopt sound hiring practices
 - 📌 Communicate often with employees
 - 📌 Recognize good performance
 - 📌 Provide adequate training
 - 📌 Evaluate alternative labor sources
 - 📌 Practice family decision making
 - 📌 Develop an estate/business transfer plan
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Legal Risk Management

- 📌 Evaluate business structure
 - 📌 Review insurance coverage, contacts
 - 📌 Consider optional business arrangements
 - 📌 Manage liability
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Environmental Risk Management

- 📌 Become familiar with environmental issues
 - 📌 Comply with regulations
 - 📌 Maintain adequate records
 - 📌 Follow *Best Management Practices*
 - 📌 Address concerns about food safety, pesticide drift, manure runoff, etc.
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✓ Risk Management Plan

Final Steps

Develop and implement the plan



What must be done?

Who's responsible?

What's the timeline for specific tasks?

How will you evaluate results?

Risk Management Planning Forms

- Form 1. Initial Risk Management Assessment
 - Form 2. Risk Management Priorities
 - Form 3. Plans of Action for Priority Risks
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Risk Management

Matching your goals and expectations of business success with your ability to accept a certain amount of risk and to take actions to reduce the possibility of unfavorable outcomes

Thank you
